

Message Text

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14

ACTION EUR-25

INFO OCT-01 ADP-00 AGR-20 EB-11 COME-00 TRSE-00 OMB-01

CIAE-00 DODE-00 PM-07 H-02 INR-10 L-03 NSAE-00 NSC-10

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R 220740 Z JUN 73

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 9753

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L BUDAPEST 2406

E. O. 11652: GDS

TAGS: EAGR ECON EGEN ETRD HU

SUBJECT: FALUVEGI ON ECONOMIC REFORM

FOR STATE AND AGRICULTURE (PARA 3)

REF: BUDAPEST 2372

1. DURING LONG MARCH THROUGH EXPOSITION OF 1972 PROBLEMS
AND ACHIEVEMENTS OF HUNGARIAN ECONOMY IN PARLIAMENT
JUNE 14 FINANCE MINISTER FALUVEGI STOPPED OFF TO INDICATE
FURTHER DEVELOPMENT OF ECONOMIC REFORM PLANNED FOR 1975.
FALUVEGI STATED THAT IN SECOND HALF OF 1970' S HUNGARIAN
NEED FOR MODERN TECHNOLOGY WILL BE GREATER, ESPECIALLY
BECAUSE OF SHORTAGE OF LABOR. HE POINTED OUT THAT THE
DEVELOPMENT OF INTERNATIONAL ECONOMIC RELATIONS IS
OPENING UP OPPORTUNITIES " WHICH DEMAND MORE FLEXIBLE
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ECONOMIC FORMS AND METHODS" AND ALSO SPEEDS UP PACE OF INTEGRATION OF DOMESTIC ECONOMY. THEREFORE, BUILDING ON NEXT FIVE YEAR PLAN BUT ACTUALLY BEGINNING IN 1975, " WE ARE PLANNING FURTHER DEVELOPMENT OF ECONOMIC AND FINANCIAL REGULATION WHICH WILL TAKE THIS INTO ACCOUNT."

2. FALUVEGI SPENT GOOD DEAL OF TIME ON ENTERPRISE PERFORMANCE, POINTING OUT 11 PERCENT INCREASE IN ENTERPRISE PROFITS CAME MAINLY FROM INCREASED INPUT RATHER THAN EXPANDED EFFICIENCY. HE SAID ALSO THAT THERE EXIST POSSIBILITIES FOR MANY ENTERPRISES TO IMPROVE THEIR PERFORMANCE BY BETTER USE OF THE AUTONOMY WHICH THEY HAVE. ALTHOUGH A FEW HAVE DONE SO (FALUVEGI CITES SEVERAL EXAMPLES), THE MAJORITY HAVE HARDLY BEGUN TO GRAPPLE WITH THEIR PROBLEMS.

3. WHILE NOTING A FAVORABLE PICTURE IN FOREIGN TRADE, FALUVEGI ADMITTED THAT BECAUSE OF LOSSES FROM HOOF- AND- MOUTH DISEASE EXPORT OF ANIMAL PRODUCTS WILL BE LESS THAN LAST YEAR. BECAUSE OF ACTIVE BALANCE WITH CEMA COUNTRIES, ENTERPRISES WILL BE ENCOURAGED WITH CREDIT AND SUBSIDY SUPPORT TO BUY FROM THEM.

4. FALUVEGI ALSO ANNOUNCED THAT PRICES OF DOMESTICALLY PRODUCED REFRIGERATORS WILL BE REDUCED BY 5 PERCENT AND THOSE OF PHONOGRAPH RECORDS IMPORTED FROM CEMA COUNTRIES BY 10-15 PERCENT WERE TO BE RAISED AS OF JUNE 18. HE PROMISED FURTHER PRICE REDUCTIONS IN FUTURE.

5. COMMENT: IT IS DOUBTFUL THAT A YEAR AGO HUNGARIAN ECONOMIC LEADER WOULD HAVE STATED PUBLICLY THAT THERE WOULD BE FURTHER FORWARD DEVELOPMENTS IN ECONOMIC REFORM SYSTEM. ALL COMMENT WE SAW IN PRESS OR HEARD FROM HUNGARIANS WAS THAT REFORM WAS FIRMLY IN PLACE BUT THAT THERE WOULD BE NO NEW DEVELOPMENTS. PRIVATELY SEVERAL HUNGARIANS ALLUDED TO THE SUSPICIOUS OF SOVIETS AND OTHERS AS REASON FOR CAUTION. FALUVEGI'S REMARKS SEEM TO INDICATE KADAR REGIME FEELS MORE SECURE IN ECONOMIC AREA AND THAT TIME IS RIGHT TO TAKE A FEW MORE FORWARD STEPS.

6. THIS MAY ALSO BE INFERRED FROM COMMENTS OF DEPUTY
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PREMIER MATYAS TIMAR TO AMBASSADOR DURING LATTER'S FAREWELL CALL JUNE 18. IN DISCUSSING ECONOMY AND FUTURE TIMAR WAS EXPANSIVE AND PROJECTED A GOOD DEAL OF CONFIDENCE IN WHAT THE REFORM HAD ACCOMPLISHED AND WHAT IT WOULD DO IN THE FUTURE. TIMAR STATED THAT HUNGARIAN ECONOMIC REFORM IS OBJECT OF GOOD DEAL OF FRIENDLY INTEREST FROM OTHER CEMA COUNTRIES AND IN CEMA COUNCIL HUNGARIAN WORD

CARRIES CONSIDERABLE WEIGHT. INDICATED HUNGARIAN RE-FORM MECHANISM COULD BE MODEL FOR OTHER EE STATES, BUT NOT NECESSARILY USSR. SUGGESTION THAT HUNGARY COULD BE MODEL FOR OTHER EE' S HAS ALWAYS BEEN REJECTED BY HUNGARIANS IN PAST.

7. THERE IS NOT ENOUGH INFORMATION TO SAY AT THIS TIME WHAT KIND OF CHANGES FALUVEGI HAS IN MIND, BUT THEY MOST LIKELY WILL BE RELATED TO FOREIGN TRADE SYSTEM. WE HAVE LEARNED THAT THE HUNGARIAN AGENCY, INTERAG, WITH FINANCIAL SUPPORT FROM SHELL OIL, IS PLANNING TO ERECT A BUILDING

WHICH WILL BE AVAILABLE TO WESTERN FIRMS WHICH DESIRE TO HAVE AN OFFICE IN BUDAPEST. OFFICIALLY AT THE MOMENT SUCH A FORMAL ARRANGEMENT IS NOT POSSIBLE, BUT BY THE TIME THE

INTERAG FACILITY IS COMPLETED IT WOULD BE 1975 OR AFTER AND THE QUESTION OF REPRESENTATION MAY BE ONE OF THOSE WHICH FALUVEGI WAS REFERRING TO.
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